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PRESS RELEASE

Trade crisis? What trade crisis?

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We provide an analysis of the 2008-2009 trade collapse using micro-data from a small open economy (Belgium) provided by the National Bank of Belgium. First, we find that changes in firm-country-product level exports and imports occurred mostly at the intensive margin: i.e. the average value of trade transactions of a given product of a firm in a given country. This means that the number of firms trading, the average number of destination and origin markets per firm, and the average number of products per market changed only very little. This evidence supports the idea that trade can bounce very quickly once macroeconomic conditions will improve.

Second, our econometric analysis reveals some composition effects in the intensive margin fall along firm, product and country characteristics. The most important factor explaining changes in exports is the destination country's growth rate of GDP. Had growth rates in 2008-2009 been the same as in 2007-2008, Belgian exports would have fallen by about 57% less than what we observe. Trade in consumer durables and capital goods fell more severely than trade in other product categories, which explains another 22% of the observed fall. Financial variables and involvement in global value chains have some explanatory power on the exports and imports fall respectively, but appear to have affected domestic operations in equal proportion. More generally, exports-to-turnover and imports-to-intermediates ratios at the firm level did neither systematically decrease nor reveal strong firm- or sector-specific patterns. Overall, our results point to a demand-side explanation: the fall in international trade was mostly driven by the fall in economic activity that has equally affected domestic trade.

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